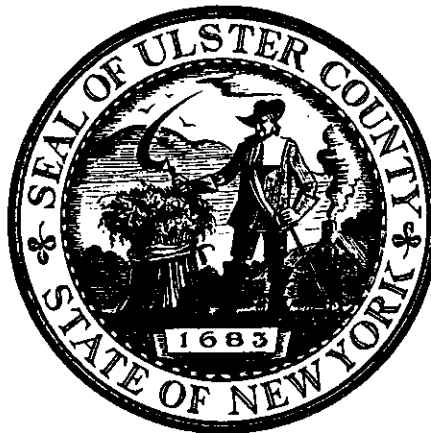


Audit Follow-up Report

2010 – 009

**Ulster County Department of Social Services
Medical Assistance (Medicaid) Spend-Down Program**

November 1, 2009 – January 31, 2010



Issued: May 7, 2010

Elliott Auerbach – County Comptroller

The mission of the Ulster County Comptroller's Office is to serve as an independent agency of the people and to protect the public interest by monitoring County government and to assess and report on the degree to which its operation is economical, efficient and its financial condition sound.

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Elliott Auerbach

Comptroller

Laura F. Walls

Deputy Comptroller

May 2010

Dear County Officials:

In our continued effort to ensure "best practices," the Office of the Comptroller provides this follow-up to an August 2009 audit of the Ulster County Department of Social Services (UCDSS) Medicaid Spend-Down Program.

As a result of that audit the UCDSS initiated a correction action plan. The objective of this follow up audit is to determine the extent to which that plan was implemented and assess its effectiveness in addressing the findings of initial audit.

An important outcome of follow-up audits is to ensure that any deficiencies identified in the original audit have been remedied and to provide additional insights into improved internal controls. Through this process we educate government officials about how best to develop and implement the policies and procedures required to account for and protect Ulster County assets.

This audit was conducted pursuant to the Comptroller's authority as set forth in Article A9-2(A) and (G) of the Ulster County Administrative Code.

The following is our report of the Ulster County Department of Social Services Medicaid Spend-Down Unit – Follow-up Audit.

If I can be of assistance to you, or if you have any questions concerning this report, please feel free to contact me.

Respectfully submitted,

Elliott Auerbach

Elliott Auerbach
Comptroller

INTRODUCTION

Background

On August 27, 2009, the Ulster County Comptroller issued an audit report of the Ulster County Department of Social Services (UCDSS) Medical Assistance (Medicaid) Spend Down Program (Spend Down). The audit found that the Ulster County Social Services Medicaid Unit:

- lacked a centralized and coordinated administrative management system over the Spend-Down Program;
- lacked written policies and procedures over the collection, recording and reporting of cash;
- did not sufficiently segregate the duties of personnel in charge of collecting and recording monies;
- receipts were not pressed numbered;
- monies were not deposited timely; and
- lacked a system to reconcile the actual cash collections to that recorded in the County's accounting system and State's Welfare Management System to insure that all transactions have been captured and properly recorded.

In response, the UCDSS implemented a corrective action plan in regard to each of the findings. The corrective action plan:

- assigned a new director to oversee the Medicaid Insurance Program which now includes the Medicaid Spend-Down Program;
- adopted new, written policies and procedures effective September 1, 2009;
- segregated duties of Spend-Down personnel;
- created and filled a cashier position;
- requires daily deposits and monthly reconciliations.

In addition, DSS staff reviewed client cash payments we reported as having been receipted but not deposited.

Objective

The objective of our Audit Follow-up Report is to determine the extent to which the UCDSS Corrective Action Plan was implemented and its effectiveness in addressing the findings of the August 27, 2009 report.

This audit follow-up addressed the following questions:

- Are new written procedures in place and being followed which address the cash collection and segregation of duties concerns?
- Are duties over the collection of monies sufficiently segregated from recording to prevent the misappropriation of clients monies?
- Are deposits being made on a timely basis?
- Has Department of Social Services Medicaid Staff followed up on the status of client funds we reported as missing and determined the current status of the reported missing funds?

Scope and Methodology

We conducted our audit follow-up between February 16, 2010 and February 24, 2010. We reviewed the new policies and procedures implemented beginning September 1, 2009 by DSS Management; examined the cash receipt transactions, and the security and transmittal of monies for the DSS Medicaid Spend-Down Unit to the DSS Accounting Department for deposit for the period November 1, 2009 to January 31, 2010.

Audit Results

Our review found that overall, significant improvements were made concerning the management of the Spend-Down Program. We found the UCDSS Medicaid Spend-Down Unit made significant improvements in its internal control procedures related to cash receipts and timely deposits of money.

However, we found the following deficiencies:

- inadequate segregation of duties for the new cashier position;
- not all deposits were made the next business day as required;
- procedures for completing deposit instructions forms were not being followed;
- manual receipt information was not entered into the accounting system as required; and
- the majority of the client funds we reported as missing, could not be accounted for by DSS Spend-down staff or DSS Accounting Department staff. In addition, DSS Spend Down staff identified additional receipts that could not be traced to monthly deposit reports.

Auditing Standards

We conducted this audit follow-up in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Comments of Agency Officials And Corrective Action

The results of our audit and recommendations have been discussed with DSS officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, DSS officials generally agreed with our recommendations and indicated that they planned to take corrective action. Appendix B includes our comment on issues raised by the department.

FINDINGS AND RECOMMENDATIONS

Segregation of Duties

In our August 2009 report we noted that management did not review, check or reconcile the pay-in Social Welfare Examiner (SWE)'s work on a periodic basis. The pay-in SWE had as part of their duties the responsibility of issuing handwritten receipts, collecting and recording cash receipts and preparing deposits.

DSS management established new policies and procedures requiring two SWE's to be responsible for Spend-Down Client files. In addition, a cashier position was created and filled thereby removing the SWE's from being involved with collecting cash from clients, issuing receipts as well as preparing deposits. The cashier, who works in a booth physically separated from the SWE's work location, is responsible for collecting all monies directly from clients paying in person, issuing receipts to clients and entering the collections into the County's H.T.E. accounting program on a daily basis.

However, in our follow-up audit, we found the cashier is also responsible for counting the daily cash, checks and money orders and comparing them to the daily transaction report of collections in order to verify that funds turned over to the accounting department for deposit, agrees with the daily transaction report.

An effective system would provide that the person collecting cash, issuing receipts and entering the collections into the accounting system, not also be responsible for counting out the cash draw and comparing the count to the daily transaction report verifying the amount to be forwarded for deposit.

Recommendation

We recommend that someone from the UCDSS Accounting Department be responsible for counting the cash collections on a daily basis and for verifying that the daily transaction report matches what was collected and turned over for deposit, and further that it agrees with the amounts recorded in the computer system. Segregating these duties would eliminate the ability of a single person to manipulate any monies.

Daily Cash Deposits

In our August 2009 report we noted that cash collections were not deposited on a timely basis. In some instances deposits were made up to four months after the manual receipt had been issued to clients. Furthermore, we reported that monies were being kept in a locked cabinet next to the pay-in SWE's desk until such time that monthly deposits were made.

DSS management took corrective action by having a cashier booth constructed and establishing and hiring someone for the cashier's position. All in-person clients make their payments directly at the cash booth and the Spend-Down SWE's now forward monies received in the mail to the cashier on a daily basis. Furthermore, the cashier booth has a double locked combination safe whereby only the cashier has the combination for the bottom safe which contains the change fund cash box. All other monies are dropped into the top safe, which can only be accessed by DSS Finance staff. Written procedures were implemented and require that all collections be deposited the next business day.

To test the new procedures, we examined all deposits made between November 1, 2009 and January 31, 2010. We examined 59 daily deposits totaling \$1,401,489.16 and found two were not deposited the next business day as required. The following table shows the two transactions that were not deposited the next business day as required.

Transaction Date	Deposit Date	Transaction Amount
Thursday 12/03/09	Monday 12/07/09	\$32,013.68
Thursday 12/10/09	Monday 12/14/09	\$ 9,016.67

The procedure for making deposits is as follows:

1. DSS Finance Department staff escort the Cashier to the cash booth, open the safe and remove the cash, checks and money orders from the top safe.
2. The Cashier counts the cash first thing in the morning and compares the cash count to the daily transaction report to verify that the amount being deposited matches the computer system. The Cashier then enters that amount onto a Financial Verification Form and signs and dates the form.
3. The Cashier along with the monies to be deposited and the Financial Verification Form are escorted to DSS's Finance Department.
4. DSS Finance Office staff then recount the monies and compare to the daily transaction report. If count and daily transaction report are in agreement, the Finance Office staff signs and dates the Financial Verification Form.
5. DSS Finance staff then place the monies into a plastic bank deposit bag and date the bag. The monies are kept in the DSS Finance office safe until the courier is available to take the deposits to the bank.
6. A DSS courier takes the money to the bank for deposit and returns with a bank deposit slip which is attached to the daily transaction report along with the bank bag tear-off strip.

Our review disclosed that the December 3rd and 10th daily transaction reports had the following information listed on the above documents:

Transaction Date	Financial Verification Form signed and dated	Bank Bag Dated	Deposit Slip Dated
Thursday 12/03/09	Friday 12/04/09	Saturday 12/05/09	Monday 12/07/09 @ 11:19 AM
Thursday 12/10/09	Monday 12/14/09	Monday 12/14/09	Monday 12/14/09 @ 11:53 AM

Recommendation

In order to insure that deposits are made the next business day, as required by the new policy and procedures, DSS management should ensure regular implementation of the procedures and, further, follow through to verify that deposits are being made the next business day in accordance with UCDSS policy..

Collection Procedures – Deposit Instruction Form

In our August 2009 report we noted that the pay-in SWE was not required to complete any type of documentation for monies collected from clients. Subsequent to our audit report, new procedures were implemented which required pay-in SWE's document amounts to be paid to the Cashier by Spend Down clients.

The DSS Finance Department developed a form labeled Deposit Instruction Form. This form is to be completed for each client interviewed who will be providing cash, check(s) or money order(s) to cover their spend-down payment. This form is also completed for any monies received through the mail that will be forwarded to the cashier for processing. The form contains the clients name, H.T.E. account code, claim number, account number, payment, month to be applied to, CIN number and SWE's identification information (name, phone # extension) and a place for description and notes. The pay-in SWE is required to complete a Deposit Instruction Form for each client prior to having the client give their payment to the cashier. The cashier then inputs the information from the Deposit Instruction Form into the H.T.E. accounting system to produce the daily transaction report. The Deposit Instruction Form is returned to the pay-in SWE the next day where it is held to be scanned into the State's WMS system and the original Deposit Instruction Form is discarded.

We conducted an unannounced cash count on February 22, 2010 of the monies collected on February 19, 2010. There were nineteen transactions totaling \$17,625.04. We examined all nineteen Deposit Instruction Forms and noted that none of the forms indicated the date the transaction took place. Sixteen of the nineteen Deposit Instruction Forms did not have the SWE's identification

information on it. Consequently, we could not determine which SWE completed which transaction.

A proper cash management system would dictate that all forms contain sufficient information so that any person unrelated to the transaction could reasonably determine when the transaction took place and who processed the particular documentation.

Recommendation

We recommend that DSS management change the Deposit Instruction Form to include the date of the transaction. Furthermore, the Cashier should review the Deposit Instruction Form to insure that the SWE has written down their identification information prior to completing the transaction with the client. Incomplete forms should be given back to the SWE to complete as required before any payments are accepted from clients.

Manual Receipts Issued

In our August 2009 report we noted that manual receipts were not always numbered; duplicate numbered receipts were issued to different clients; and receipts were not dated or numbered. Consequently, it was difficult to trace individual receipts back to the correct daily transaction reports and deposits. In addition, we reported that the daily batch reports did not contain the manual receipt numbers making it difficult to trace individual deposits to a receipt recorded in the un-numbered receipt books.

DSS Management implemented new procedures whereby manual receipts are only issued by the part-time cashier who works in the cashier booth from 8:00 – 9:00 AM and when the full-time cashier takes their lunch break. The part-time cashier will issue manual receipts to clients and the information from the receipt is subsequently entered into the H.T.E. accounting system by the full-time cashier. When entering information from the manual receipts, the cashier is required to enter the manual receipt number in the memo field for those transactions.

We examined eighteen manual receipts, issued between February 3, 2010 and February 19, 2010, to determine if procedures for entering the manual receipt information into the H.T.E. accounting system were followed. Three manual receipt numbers were not entered into the H.T.E. accounting system as required. Of those, one receipt was issued on February 10, 2010 for \$100 and two receipts were issued on February 12, 2010 in the amount of \$20.00 and \$138.00 each.

Furthermore, two manual receipts were not listed on the daily H.T.E. daily transaction reports at all. One receipt issued February 18, 2010 was for \$414.00

while the other receipt for \$359.33 was issued February 19, 2010. We note that both of these receipts stated that checks received were to reimburse DSS for rent payments previously made by the County on behalf of the clients.

A properly designed system would include a process where an independent person verifies that all manual receipt information has been entered as required.

Recommendation

Procedures should be implemented whereby someone, independent of the cashier, checks the book of manual receipts to insure that all the information from the receipt has been entered and that all manual receipts have in fact been entered in the H.T.E. accounting system.

Cash Shortage – Medicaid Spend Down Program

In our August 2009 report we noted that DSS initially reported to the Ulster County Sheriff the theft of \$1,312 from the Medicaid Spend Down Program which occurred during February 2008. In the course of our audit we found an additional fifty-three receipts totaling \$3,424.30 that could not be traced to monthly deposit reports.

During this audit follow-up DSS informed us they conducted a review of the clients making up the un-deposited \$3,424.30 to determine their status. DSS provided us with a listing, totaling \$3,276.04, of their review completed by Medicaid Spend Down staff and DSS Accounting Department personnel. Their review found:

- Twelve manual receipts totaling \$1,000 traced to monthly deposit reports. However, our review of these particular receipts disclosed that five of the twelve receipts totaling \$517.35 were not related to the un-deposited receipts we reported. Instead they consisted of:
 - A receipt for \$111.07 we identified already that did not need follow-up.
 - A receipt for \$80 that was not numbered as opposed to not deposited.
 - A receipt for \$100 that did not list the month coverage was for.
 - A receipt for \$150.78 was for a check payment and not cash.
 - A receipt for \$75.50 that although DSS reported as having been deposited May 23, 2008, we did not find listed on the May 2008 report.
- Forty-five receipts totaling \$2,276.04 could not be traced to any monthly deposit reports. Included in this total were two receipts totaling \$100 which DSS staff discovered as new additional missing monies.

With regard to other audit findings unrelated to the un-deposited monies, DSS staff found:

- Where we reported that a deposit exceeded the receipt by \$7.00, DSS staff stated that no explanation could be found for this.
- A client who was issued two receipts for the same payment. DSS staff stated that this was just an error, but cannot substantiate this.
- A receipt for \$23.25 was deposited as \$24.25. DSS staff stated that they put in the extra dollar for this client, but cannot substantiate this.

A properly designed cash management system should have checks and balances to insure the timely review of transactions and that all monies have been properly accounted for and deposited.

Recommendation

We encourage DSS management to continually review their practices regarding the collection, recording, depositing and remitting of monies to insure that all monies have been accounted for. Furthermore, DSS should have the County Finance Department transfer an amount sufficient to cover the monies still unaccounted for.

APPENDIX A

RESPONSE FROM AGENCY OFFICIALS

The agency officials' response to this audit can be found on the following pages.



*Making a Difference Every Day
For Adults, Children and Families*

Ulster County Department of Social Services



Michael P. Hein
County Executive

Roberto Rodriguez
Commissioner

April 12, 2010

The Honorable Elliott Auerbach
Comptroller
County of Ulster
PO Box 1800
Kingston, NY 12402

Dear Comptroller Auerbach:

RE: Follow-Up Medicaid Spend Down Program

Pursuant to the discussion we had with your staff at the March 31, 2010 exit conference, attached please find the Department of Social Services response to the follow-up audit in the order the recommendations were presented. After further deliberation and with minor changes, we have left our response intact. We have also consulted with the Finance Department to ensure that we properly execute the recommendation on the disposition of unaccounted funds.

In closing, we appreciate the acknowledgement that significant improvement has been made with our new process and also the steps taken to assure appropriate internal controls in the Spend Down Program.

Sincerely,

Roberto Rodriguez
Commissioner

RR/eh
enc.
cc: Marshall Beckman

Response to Audit Follow Up Report Dated 3/15/10
Medical Assistance Spend Down Program

SEGREGATION OF DUTIES

Recommendation (pg 6)

We recommend that someone from the UCDSS Accounting Department be responsible for counting the cash collection on a daily basis and for verifying that the daily transaction report matches what was collected and turned over for deposit, and further that it agrees with the amounts recorded in the computer system. Segregating these duties would eliminate the ability of a single person to manipulate any monies.

Response:

We have reviewed this recommendation with all parties and feel that the current procedure provides for adequate segregation of duties. Currently the Cashier counts their drawer only to verify that there is not a data entry error in HTE. The Cashier hands the money over to the Accounting Department. The Accounting Department representative counts the money for a second time with the cashier present. A Financial Transfer Form is filled out and signed by both the Cashier and the Accounting Department Representative verifying the amount to be deposited. The Accounting Department representative then verifies the amount to the Cash Edit Listing (HTE report). In our opinion, bypassing the cashier and having only the Accounting Department count the cash only compromises the intent of the segregation and heightens the risk for a discrepancy to occur.

With regard to the cash box, the box was established with a \$200 balance. Under the current procedure, the cash box is counted by the two cashiers every time there is a cashier change and a Cash Tray Verification Form is signed. At the end of every day the cashier and a supervisor count the cash box and verify the balance. Please note that since its inception (September 1, 2009), there have been no discrepancies found in the cash balance.

DAILY CASH DEPOSITS

Recommendation (pg 9)

In order to insure that deposits are made the next business day, as required by the new policy and procedures, DSS management should ensure regular implementation of the procedures and, further, follow through to verify that deposits are being made the next business day in accordance with UCDSS policy.

Response:

We disagree that deposits are not being made as required by DSS policy. From September 1, 2009 through January 31, 2010, there were 128 deposits made. The Comptroller's office examined 59 of those deposits and found that two deposits had not been deposited the next business day. The two instances in question had reasonable justification with the checks properly secured until they could be deposited. The dates of those two deposits were 12/3/09 and 12/10/09. The delay for the Thursday, 12/3/09 deposit involved a new cashier being trained who encountered a problem processing the reports from HTE. When the Cashier had finished, the courier had already left. The deposit was then locked in a safe with controlled access. The deposit was made on Monday 12/7/09 pursuant to existing procedure. The second incident that occurred on 12/10/09 was due to the fact that the entire Accounting Department was required to attend a retreat and there was no one available to process the deposit. This deposit was made on Monday 12/14/09. Although these two deposits did not strictly adhere to DSS policy, they did meet the Ulster County Administrative Code §A11-1(d) that states:

"The Commissioner of Social Services shall pay to the Commissioner of Finance all moneys received by him or her which are reportable to or receivable by the County as soon as practical or as may be required by the Commissioner of Finance, but in no event less than once weekly."

Recommendation (pg10)

We recommend that DSS management change the Deposit Instruction Form to include the date of the transaction. Furthermore, the Cashier should review the Deposit Instruction Form to insure that the SWE has written down their identification information prior to completing the transaction with the client. Incomplete forms should be given back to the SWE to complete as required before any payments are accepted from clients.

Response:

We agree with the recommendation. The Deposit Instruction Form has been changed to include date of transaction, employee signature, and the employee name printed. (Attachment A)

MANUAL RECEIPTS ISSUED

Recommendation (pg 11)

Procedures should be implemented whereby someone, independent of the cashier, checks the book of manual receipts to insure that all the information from the receipt has been entered and that all manual receipts have in fact been entered into H.T.E accounting system.

Response:

We agree with the finding that someone independently verifies that manual receipt numbers are being entered into the description field in H.T.E. We disagree that all receipts were not entered into H.T.E.

From September 1, 2009 through March 29, 2010 there were 146 manual receipts used. The Comptroller's Office examined eighteen manual receipts issued between February 3, 2010 and February 19, 2010.

In the first incident it was stated that of these eighteen manual receipts, three were not entered in H.T.E., when in fact the manual receipts were inputted into H.T.E. However, the manual receipt numbers were omitted in the description. We now have someone from the Accounting Department verifying that the manual receipt numbers are inputted into the description field each day.

The second incident stated that two deposits were not entered into H.T.E. These were county checks being returned by vendors with receipts issued. However, they were not deposits and should not have gone through the cash receipt booth. The cashiers have been made aware that they are not to accept county checks and that they are to call a supervisor if one does present itself. The supervisor will issue a receipt to the vendor from a separate receipt book held in the accounting department. This receipt book will have no correlation to cash receipts or H.T.E.

CASH SHORTAGE – MEDICAID SPEND DOWN PROGRAM

Recommendation (pg13)

We encourage DSS management to continually review their practices regarding the collection, recording, depositing and remitting of monies to insure that all monies have been accounted for. Furthermore, DSS should have the County Finance Department transfer an amount sufficient to cover the monies still unaccounted for.

Response:

We agree with the recommendation and now have in place the controls that will ensure continued compliance. With regard to the disposition of monies still unaccounted for, we will take the necessary steps with the Department of Finance to ensure that each case can be entered into HTE individually and reconciled.

ATTACHMENT A

DEPOSIT INSTRUCTION FORM

Please Print

Receipt # _____

Date _____

NAME (Mandatory)(Last name, First name)_____

HTE PAY CODE (Mandatory) _____

CASE NUMBER (Mandatory) _____

CLAIM # (Optional) _____

ACCT/REF/INV # (Optional) _____

PAYMENT (Mandatory) _____

MONTH TO BE APPLIED (Mandatory for Spenddown only)_____

CIN NUMBER (Mandatory for Spenddown only) _____

WORKER SIGNATURE AND EXTENSION (Mandatory) _____

WORKER NAME PRINTED (Mandatory) _____

DESCRIPTION FIELD _____

NOTES

APPENDIX B

COMPTROLLER'S COMMENT ON THE AGENCY'S RESPONSE

In response to concerns raised and observations made about our audit in the DSS response letter, we provide the following response.

Segregation of Duties:

We disagree with the Commissioners assertion that having the cashier as the first individual to verify his/her own cash count to the accounting system provides adequate segregation of duties. The purpose of segregating duties is to allow the work of one individual be an independent check on the work of another individual so that any errors, omissions or mistakes are caught and corrected in a timely fashion. Allowing cashiers to verify their own cash count to the H.T.E. accounting system before the accounting office verifies cash counts does not provide for such checks and balances. The cashier may be present when the cash is counted, but may not first count the cash while still having access to make changes in H.T.E. We recommend that someone from the accounting department be present for counting cash collections.

Daily Cash Deposits:

The written policy adopted by the Department of Social Services requires that all Social Service Department deposits be made the next business day. The purpose of our report was to point out the two instances where the departments own procedures were not followed. Again, we recommend that the Commissioner take steps to insure that his departments' policies and procedures are being followed and consider any "back-up" provisions to the policy to prevent further such occurrences.

Manual Receipts Issued:

We recommend that the Commissioner amend his departments written policies and procedures to include steps that should be taken by the cashier when presented with a check issued by Ulster County as reimbursements.